

that its competitors must purchase, it is appropriate to presume that a RBOC affiliate's prices are not reasonable.

Pacific Telesis' comments consisted of an extended exposition of how the RBOCs could raise long distance prices and how prices of long distance services offered by interexchange carriers were inflated above competitive levels.^{47/} By reference to Professor Hausman's affidavit filed with USTA's comments, it asserts that a price squeeze cannot occur unless the RBOC is willing to accept "little or no profit" in order to expand market share.^{48/} If the phenomena that Professor Hausman describes cannot happen, then MFS should not have been able to construct the simple numerical example included in its comments.^{49/} Professor Hausman and Pacific Telesis fail to recognize the competitive implications that arise when the prices of essential services (access, interconnection, unbundled loops, resold services, etc.) provided by the RBOCs to competitors are maintained at levels far in excess of economic costs. As long as the prices of those services are maintained at supra-competitive levels, the RBOCs will have an opportunity to drive more efficient rivals out of the market essentially forcing rivals to "subsidize" RBOC price reductions in competitive market

^{47/} Pacific Telesis Comments at pp. 47-64.

^{48/} Pacific Telesis Comments at pg. 61.

^{49/} MFS Comments, Attachment 1, Numerical Illustration of How a Bell Operating Company Can Leverage its Control over Essential Facilities to Obtain a Competitive Advantage in Vertical Markets.

segments. As MFS demonstrated, the "subsidy" need not take the form of price increases in essential services, but can arise from the contribution RBOCs earn on stimulated demand for essential services driven by competitors forced to reduce prices to match an RBOC affiliate's price reduction.

The Commission's recently adopted requirements that essential services, such as interconnection, unbundled network elements, and physical collocation be priced at economic costs^{50/} can be viewed as an effort to prevent incumbent local exchange carriers, such as the RBOCs, from leveraging their control over essential services. Also, viewed broadly, the intent of the Telecommunications Act is to introduce effective competition before allowing the RBOCs to enter vertical markets.^{51/} By giving competitors a competitive alternative to the RBOCs, such legislative policies can be viewed as mechanisms to remedy the anticompetitive potential that arises when RBOCs that control essential facilities are allowed to compete in either upstream or downstream markets. Likewise, effective separate affiliate requirements diminish the

^{50/} *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, First Report and Order, CC Docket 96-98 at ¶¶ 618-861 (released Aug. 8, 1996)

^{51/} WorldCom suggested monitoring the relative earnings of the competitive affiliate as a mechanism for addressing/detecting anticompetitive leveraging. WorldCom Comments at pp. 26-27.

anticompetitive potential of the integrated provision of essential and competitive services.^{52/}

It is ironic that Pacific Telesis argues that the long distance market is not competitive and points to research to document the "excess" margins earned by long distance carriers, yet 20 pages later defends its right to maintain the price of its essential services sold to competitors well above competitive levels in order to assure its recovery of joint and common costs.^{53/} Similarly, Professor Hausman argues that essential services should be priced above marginal costs to assure recovery of joint and common costs.^{54/} It seems disingenuous and self-serving for Pacific Telesis to argue that maintaining supra-competitive prices in interLATA markets is a competitive problem while it maintains supra-competitive prices for essential services. Such analyses should be recognized as fundamentally flawed and rejected.

^{52/} See also, Time Warner Comments at pg. 11.

^{53/} Compare Pacific Telesis Comments at pp. 48-49 (long distance markets are not competitive because margin (according to Professor MacAvoy) are exorbitant, so RBOCs should be allowed to compete in such markets to drive down long distance rates) and pp. 61-62 (incumbent local exchange carriers should be allowed to maintain access prices well above competitive marginal cost levels in order to assure that they can recover their joint and common costs).

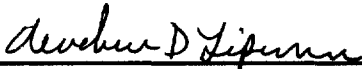
^{54/} USTA Comments, Hausman Affidavit at pg. 13.

III. CONCLUSIONS

For the reasons stated above, the Commission should classify RBOC-provided Internet services and other interLATA information services as interLATA services subject to the provisions of Sections 271 and 272. Further, the Commission should promptly establish rules implementing the structural safeguard provisions of Sections 271 and 272. Finally, the Commission should immediately direct the RBOCs to cease providing information services first marketed after February 8, 1996 until they have satisfied the requirements of Sections 271 and 272.

Respectfully submitted,

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August 30, 1996

Attachment 1

BELLSOUTH'S PRESS RELEASE DESCRIBING ITS INTERNET OFFERING

ATLANTA, August 27, 1996 -- BellSouth today launched its BellSouth.netSM service to provide Internet access to consumers and businesses in the Atlanta and New Orleans metropolitan areas. BellSouth.net service will focus on providing easy access to local information while offering reliable connection to the global Internet. The company will expand the service to an additional eight markets in its region in October.

In addition to Internet access, BellSouth.net service offers a customized version of Netscape Navigator, electronic mail, an optional site blocking feature, and an easy-to-use gateway to local and national information and electronic yellow pages.

BellSouth provides the service with two attractively-priced plans: 1) an unlimited usage plan priced at \$19.95 per month; and 2) an hourly plan that provides ten hours of access per month for \$9.95, plus \$1 for each additional hour. BellSouth will offer customers who sign up for the service in 1996 one free month of service, and the one-time service set-up charge of \$10.00 will be waived. Customers can have the service billed to their BellSouth telephone bill or charged to a credit card.

"At BellSouth, we have a heritage of meeting customer demands with high quality, reliable services," says Jere Drummond, president & CEO of BellSouth Telecommunications. "We're happy to bring that unparalleled heritage to a communication tool where a high level of customer care is critical -- the Internet."

BellSouth.net service will be available in October in the Miami area (including West Palm Beach and Ft. Lauderdale), the Raleigh area, Charlotte, Orlando, Jacksonville, Louisville, Nashville and Memphis. Additional markets will be added in 1997.

The Internet market is growing at a rapid pace, according to a BellSouth study conducted in April, 1996. Of the company's total customers, 14 percent say they access the Internet, a significant increase from nine percent in November, 1995.

"Our Internet service is locally focused and globally connected," says John Robinson, president of BellSouth.net Inc. "We will help our customers find useful and interesting information on the Internet while focusing on providing them easy access to information about their local metros. BellSouth will provide a much needed connection between consumers and businesses locally and globally."

BellSouth's comprehensive Internet service offering has been enhanced by alliances with:

Yahoo! -- One of the most popular search and directory utilities for the Internet, Yahoo! and BellSouth have developed a customized version of Yahoo! for BellSouth.net users to find local and regional information with hyperlinks to Yahoo's Internet directory site for research into global information.

HotWired -- This company has designed a tour that teaches newcomers how to maneuver on the World Wide Web. In addition, HotWired's HotBot search engine will enhance BellSouth.net users' search capabilities. HotBot is a joint effort of the HotWired Network and Inktomi Corporation.

SurfWatch -- A site-blocking feature, SurfWatch enables parents to monitor children's Internet activities.

Key local information providers, such as Gambit New Orleans Weekly and Atlanta publications Creative Loafing and The Atlanta Business Chronicle.

BellSouth will continue seeking alliances with other local information providers so customers can easily access even more information about their local metros in the future.

BellSouth.net Inc. has implemented local Internet Protocol (IP) networks and developed services which will allow BellSouth's business units and affiliates to provide Internet services and electronic commerce capabilities for residential and business customers' growing computer networking needs. The company, for example, has developed a portfolio of business offerings that include Intranet and industry-specific electronic commerce solutions for businesses with complex communications needs.

For small businesses, BellSouth.net service will facilitate local and regional electronic commerce through its local (IP) networks by providing easy access to and speedy interaction with cohesive communities of interest. A community of interest includes a subject-specific group of related client, vendor and service-oriented organizations electronically connected for the purpose of sharing information and automating business processes.

"These communities of interest enable local communication that is faster and more secure because it's sent through BellSouth's local IP network, the same network that also provides access to the global Internet," says Robinson. "Through BellSouth, these communities of interest bring together consumers, professionals and businesses who rely on each other for success."

Customers should call 1-888-4DOTNET(368638) TOLL FREE for more information or to order BellSouth.net service. Customers may access the service's home page at www.bellsouth.net.

BellSouth is a \$17.9 billion communications services company. It provides telecommunications, wireless communications, directory advertising and publishing, and information services to more than 25 million customers in 17 countries worldwide. BellSouth's telecommunications operations provide service over one of the most advanced networks in the world for nearly 22 million access lines in its nine-state region that includes Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. Visit BellSouth Corporation's web site at www.bellsouth.com.

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CERTIFICATE OF SERVICE

I hereby certify that on this 30th day of August 1996, copies of the foregoing REPLY
COMMENTS OF MFS COMMUNICATIONS COMPANY, INC.; CC Docket 96-149 were
served via Messenger, to all parties below:

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